



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced:	02/05/01	Bill No:	SB 175
Tax:	Sales and Use	Author:	Torlakson, et al.
Board Position:		Related Bills:	AB 1737 (2000)

BILL SUMMARY

This bill would provide that the “gross receipts” and “sales price” of a new mobilehome, as specified, shall be 50% of the sales price to the retailer.

ANALYSIS

Current Law

Under existing law, sales or use tax applies to all sales or purchases of tangible personal property, unless otherwise exempted or excluded from the computation of sales or use tax. In general, sales of new mobilehomes are subject to sales or use tax to the same extent as sales of any other tangible personal property.

Under current law, a partial exemption exists for the sale and purchase of certain new mobilehomes. Since July 1, 1980, Sections 6012.8 and 6012.9 of the Sales and Use Tax Law have provided that a sale of a new mobilehome that is sold for installation for occupancy as a residence is subject to tax based on 75 percent of the selling price of the mobilehome *to the retailer*, provided the mobile home is sold by the retailer to the purchaser for installation on a foundation system pursuant to specified sections of the Health and Safety Code. In cases where a new mobilehome is sold by a manufacturer directly to the purchaser under similar circumstances, current law provides that the tax is measured by an amount equal to 75 percent of the sales price at which a similar mobilehome ready for installation would be sold by the manufacturer to a California dealer.

Under current law, all mobilehomes purchased after July 1, 1980 are additionally subject to property tax. Any resales of these mobilehomes are exempt from sales and use tax and continue to remain subject to property tax.

Proposed Law

This bill would amend Sections 6012.8 and 6012.9 of the Sales and Use Tax Law to instead provide that the “gross receipts” and “sales price” of a new mobilehome sold for occupancy as a residence is subject to tax based on 50 percent of the selling price of the mobilehome to the retailer, in cases where the mobile home is sold by the retailer to the purchaser for installation on a foundation system pursuant to specified sections of the Health and Safety Code. In cases where the mobilehome is sold by a manufacturer directly to the purchaser under similar circumstances, the bill would provide that the tax

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is also measured by an amount equal to 50 percent of the sales price at which a similar mobilehome ready for installation would be sold by the manufacturer to a California dealer.

The bill would become effective immediately, but would become operative on the first day of the calendar quarter commencing more than 90 days from the date the bill is enacted.

Background

The current laws applicable to sales of new mobilehomes were an outgrowth of two concerns in the late 1970's. The first was the concern of the Brown Administration and the Department of Housing and Community Development to provide an increased supply of "affordable" housing. The second was the concern of mobilehome dealers who saw a declining market as a result of restrictions on construction of new mobilehome parks by local governments. At that time, local governments imposed the restrictions because they believed mobilehome owners did not pay their fair share of taxes to support local services under the existing system. The change in the law, as it stands today, was to switch all new mobilehomes to property taxation in order to encourage cities and counties to zone more land for mobilehome parks.

It was also recognized that the circumstances surrounding the purchase, installation, and subsequent relocation of mobilehomes had changed. Due to increased costs, their mobility had decreased substantially. Likewise, the character and quality of the home had increased, and had been upgraded to the point that mobilehomes should be, under the law, equated more closely with real property rather than its prior association with personal property. (Prior to the change in law in 1980, mobilehomes were taxed in the same manner as passenger vehicles are today, i.e., subject to sales or use tax on its full selling price, and subject to vehicle license fees and registration.)

A similar bill was introduced during the 2000 Legislative Session. Assembly Bill 1737 (Correa) contained the same provisions as this bill. AB 1737 failed to pass out of the Assembly Committee on Appropriations. The Board voted to *support* AB 1737.

COMMENTS

- 1. Sponsor and purpose.** This bill is sponsored by the California Manufactured Housing Institute, which builds, sells, finances and services manufactured homes. According to the sponsor, the purpose of this bill is to make an affordable type of housing more affordable by changing the method of taxation of mobilehomes to be equal to the taxation of site-built homes. They note studies indicate that California is falling short of its annual housing need, particularly in the area of affordable housing, and mobilehomes are one of the state's most affordable forms of shelter – the average retail selling price being just under \$50,000.
- 2. Bill would not be problematic to administer.** The Board has been administering this partial exemption for nearly 20 years, and changing the percentage of taxability for sales of new mobilehomes would not be problematic.

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COST ESTIMATE

Some costs would be incurred in notifying mobilehome dealers and manufacturers, amending the Board's regulations and answering inquiries. These costs would be absorbable.

REVENUE ESTIMATE

Under the current law, consumers who purchase mobilehomes and install them on prescribed foundation systems so those mobilehomes become residences and subject to property taxation pay sales and use tax on 75% of the price to the retailer. This proposal would increase the exemption so those consumers would pay sales and use tax on only 50% of the price to the retailer.

According to the California Manufactured Housing Institute, in 2000 the estimated number of new manufactured housing sold for installation as residences in California amounted to 7,400 units, the average wholesale price was \$38,000, and total wholesale sales amounted to \$281 million (7,400 x \$38,000).

Under current law, 75 percent of sales are subject to sales and use tax, or \$211 million (\$281 million X .75 = \$211 million). Under the proposed law, 50 percent of the sales would be subject to sales and use tax or \$141 million (\$281 million X .5 = \$141 million). Therefore, total sales subject to taxation would decline by \$70 million (\$211 million - \$141 million = \$70 million).

Revenue Summary

The revenue loss from exempting the \$70 million from the sales and use tax would be as follows:

State Loss (5.00%)**	\$3.5 million
Local Loss (2.25%)	\$1.6 million
Transit Loss (0.67%)	\$0.5 million
Total	<u>\$5.6 million</u>

** While the state tax rate for 2001 is 4.75 percent, it is assumed that the rate will return to 5.0 percent in 2002.

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